Immediate Issues Facing the Small Group Market

A Presentation to the Maryland Health Care Reform Coordinating Council

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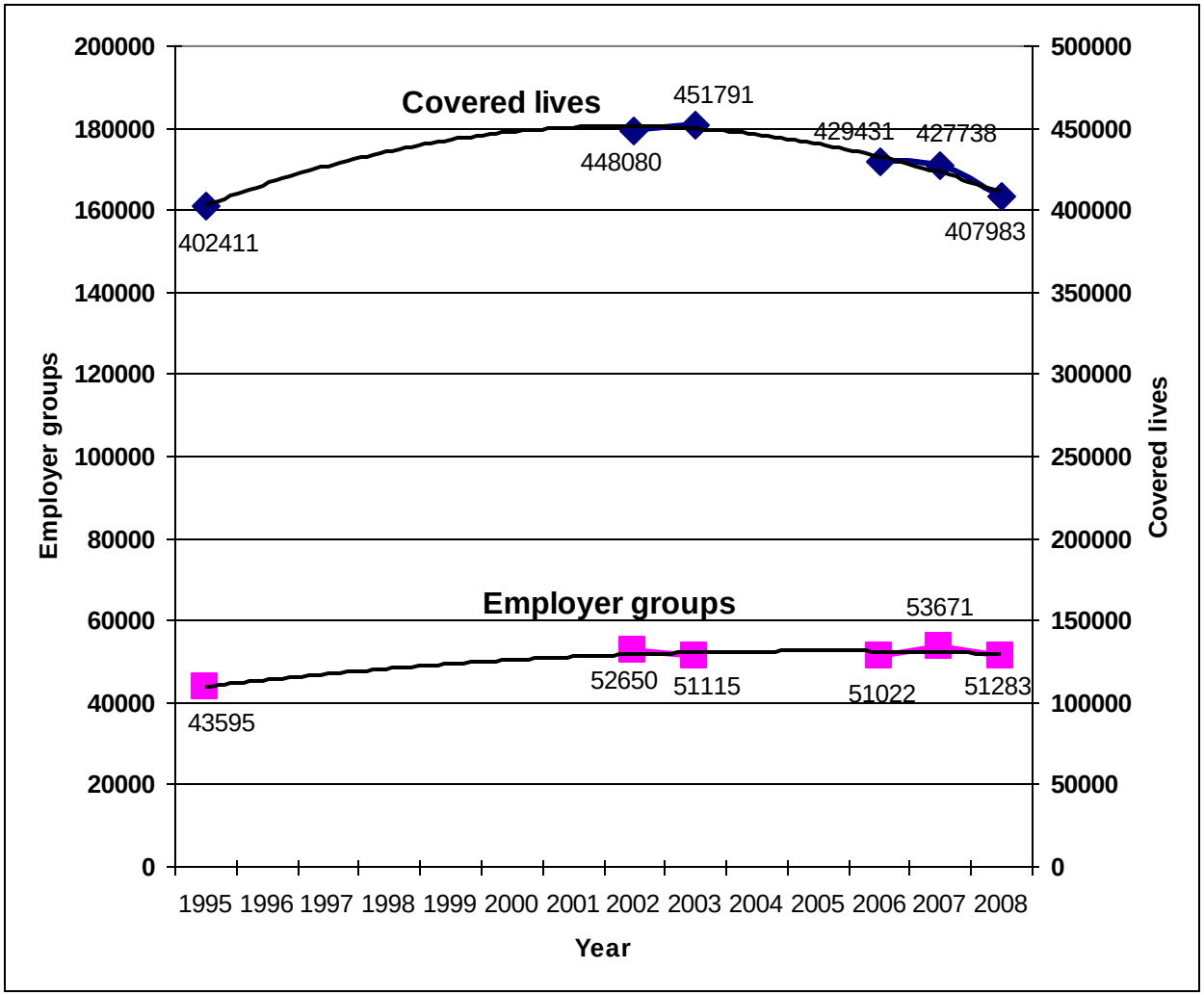
Comprehensive Standard Health Benefit Plan: Basic Provisions

- **Major, far-sighted reform in 1993**
- **Comprehensive, standardized base plans**
  - Benefit design (both breadth of covered services and degree of cost sharing) is determined by the Commission
    - Tradition of comprehensive coverage. Only major benefit currently excluded is IVF
  - Multiple types of plans (PPO, PPO/HSA, HMO, HMO/HSA, HD-HMO)
  - Mandated benefits do not apply
  - Carriers may offer additional benefits through riders, but not fewer
  - Recent legislation allows value-based benefit designs
- **Guaranteed issue and guaranteed renewal**
- **Modified community rating**
  - Adjusted only for age (3:1 ratio), geography, family composition
  - Group not previously insured can receive a 10% increase or decrease in first year based on health status (2010) *
- **Pre-existing condition limitations**
  - Applied only to individuals with no prior qualifying coverage (2009) *

Enrollment Trends in the Small Group Market



Less than half of Maryland's small businesses offer health insurance

Maryland's participation rate is higher than the national average, and we have seen less erosion of coverage in Maryland over the past decade than has been seen in many other states.

However, the number of covered lives has been declining since 2003, suggesting that fewer employees per firm take up insurance, and that fewer dependents are covered.

The businesses that are least likely to offer health insurance are small small businesses with low average wages

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SB6 – Health Insurance Partnership

Governor O'Malley's proposal for a Partnership among businesses, insurers, and government

Guiding principles and design choices:

- Offer a choice of plans, competition
- Subsidize efficiently: minimize the cost per newly insured person
  - Subsidies only to employers who have not offered insurance in the past year
- Subsidize businesses most in need of assistance
  - Target low wage businesses
    - Currently, average wage <$30,000 = full subsidy Average wage $30-50,000 partial subsidy
  - Target small small businesses (2-9 employees)
- Provide enough subsidy to change the purchasing decision
  - Previous experience has shown that substantial subsidies are needed
  - Full subsidy = 50% of the premium (up to an amount set by the Commission)
    - Currently $2,500 for employee only coverage, $6,250 for family coverage
    - Amount is based on the average HMO premium in Maryland's SGM, rises yearly
- Subsidize both the employer's and the employee's contribution to premium
  - Also subsidize any employer commitment to contribute to employee's HSA
  - Subsidize dependent coverage – but only if the family's income is below $75,000
- Avoid sudden loss of eligibility by phasing out the subsidy as the business grows
- Simplify administration for the employer and the state; minimize potential for fraud
  - Pay subsidies to the carrier in a single monthly. Subsidy directly reduces amount owed by employer and employee

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Lessons from the Health Insurance Partnership

- Partnership launched as the economy headed into the recession.
- Current enrollment after 20 months: 250 employers, 1210 covered lives, well below the expected level based on modeling done before the economy worsened.
- Confirmation: **price elasticity of demand** for health insurance is very low among the smallest employers – and even lower during a recession.
- Non-offering employers require **substantial subsidies** - and in the face of a recession and economic uncertainty, even a 50% reduction in premium and extensive outreach are not enough.
- **Employers are wary** that a program may not be there in a year or two – and mistrust reassurances.
- **Effective targeting** requires complex eligibility rules.
- **Complex eligibility rules** complicate employer/employee outreach and affect enrollment.
- However, the Partnership has been a **useful trial run for a state Health Insurance Exchange** with individual responsibility, broker participation, carrier and plan choice, and income/wage-based premium subsidies.

	Maryland Health Insurance Partnership	Patient Protection and Affordable Care Act
Eligible Businesses		
Current insurance status	**Has not offered insurance in past 12 months**	**No requirement – currently offering or not**
Number of employees	2-9 FT employees (>30 hr/wk) initially, 2-20 on renewal. Owner, partner, spouse working in firm are eligible	2 to 25 FTE. **Owners/relatives are not employees and do not receive a subsidy.**
Average wage of firm	<$50,000, including up to $60,000 of owner's income	<$50,000 not including owner
Required employer contribution	No requirement	**At least 50% of premium**
Subsidy or Tax Credit	Began 9/2008	Began 1/1/2010
Description	**Subsidy paid to carrier**, reduces premium due each month (advanceable)	**Tax credit claimed by employer against taxes owed (paid in arrears**)
Recipient of subsidy/credit	**Both employer and employee contributions are subsidized**	**Only the employer contribution is subsidized**
Maximum	**50% of total premium**, up to a cap	**35% of employer share**, up to a cap (50% after 2013)
Eligibility for maximum	Avg wage up to $30,000 and up to 9 FT employees	Avg wage up to $25,000 and up to 10 FTE
Employer contribution to HSA	Subsidized as if it were premium	Unclear
Coverage of dependents	**Subsidized at 50% max if family income <$75,000**. Cap on the maximum subsidy is higher for family coverage.	**Subsidized at 35% max (50% after 2013)**. Guidance is not clear about whether the cap on the maximum tax credit increases

Likely Effects of the Federal Small Business Health Insurance Tax Credit

- Tax credit will be claimed by **small employers already offering insurance**. Because of the tax credit, these employers will be much less likely to drop coverage.
- Until the economy fully recovers, tax credit is unlikely to provide **small employers who are not offering today** with enough incentive to offer health insurance.
- In 2014, when individuals will face penalties if uninsured, employers are likely to face increased pressure to offer and contribute toward health insurance, but the dynamics will be complicated because:
  - Small businesses (less than 50 FT employees) are not subject to penalties for not offering coverage.
  - Very small businesses will be eligible for tax credits for up to 50% of their contribution to premium.
  - Low to moderate wage workers will be eligible for subsidies for individual coverage through exchanges, if the employer does not offer a group plan (or if the premium for the employer-sponsored insurance is more than 9.5% of the employee's income).
  - Penalties to individuals for not having insurance are relatively modest, especially in 2014-2015.

Immediate challenges

- Determine how the Maryland subsidy and the federal tax credit will interact.
  - Example: Small business with three FT employees, average wage of $24,000
    - Premium for employee only coverage is $5200. Employer pays $2700.
    - Total net premium (employer plus employee shares):
      - No program: $15,600
      - Partnership alone: $8,100
      - Federal tax credit alone: $12,765
      - Both programs: $6,627
    - If employer arranges to pay 100% of premium to maximize federal tax credit:
      - Federal tax credit alone $10,140
      - Both programs: $5,265
  - Questions about the interaction have been sent to the IRS for guidance
- Consider options for the Partnership
  - End the Partnership (not recommended)
  - Close the program to new entrants (approx. $1.8 m in FY 11, less in FY 12)
  - Continue to offer subsidy (approx. $2.2 m in FY11, more in FY12)
- Establish a web site with information to help individuals and small businesses find appropriate health insurance coverage
  - The Commission, with MIA, is already establishing Virtual Compare, a web site with information about benefits and premiums for small group health insurance
  - PPACA requires Secretary Sebelius, in consultation with the states, to establish a web site to help residents identify affordable health insurance coverage options in each state.

Among the later policy challenges:

- Reforming the individual and small group markets
  - whether to merge the individual and small group markets,
  - whether to delay the expansion of the small group market from 2-50 to 2-100 employees,
  - whether to restrict the "parallel" individual and small group markets outside the exchange,
  - whether to reduce the 3:1 maximum premium variation based on age and the 1.5:1 variation based on smoking,
  - whether to strengthen the individual mandate, and
  - whether to retain certain mandated covered services that may go beyond the comprehensive benefits that will be defined at the federal level.

- Implementing a health insurance exchange
  - how the exchange will be governed and policy established (governmental or quasi-governmental),
  - what functions the exchange will perform (including whether it specifies both covered services and cost sharing, whether it selects plans to be offered, and whether it engages in benefit and price negotiations with plans)
  - how the exchange will be operated day-to-day (whether it is government-run or run by a contractor with policy oversight by the state)